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ABSTRACT

Ways to improve college student loans, work-study, and grants programs are suggested, based on the experience of the financial aid director at the University of Wisconsin-Madison. It is recommended that emphasis be shifted from the Guaranteed Student Loan (GSL) Program to the National Direct Student Loan (NDSL) Program, which is more cost-effective to taxpayers. In addition to increasing the appropriation for NDSL, nine other recommendations are offered, including: keeping the present needs test under the Uniform Methodology, and increasing the institutional match from 10 to 20 percent. Eight changes for GSL are also suggested, such as: applying the present needs test system to all applicants, including those earning below $30,000; and raising to 10 percent the interest rate borrowers pay after leaving school. Two ways to improve the College Work-Study program are to keep the Uniform Methodology to channel money to the neediest students, and to require schools to contribute 25 instead of the present 20 percent. Decentralizing the Pell Grant program and a change in the distribution of Pell funds are advocated. Other considerations are addressed: appropriations for research on student financial aid, self-support rules, and financial aid for part-time students. (SW)

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Financial aid officers, legislative staff, planners and analysts, and the higher education community need to step back and look at student financial aid in a new perspective--a perspective that will assist today's taxpayer. By taxpayer I mean both the person who provides the resources through taxes and also the recipient of the tax money through the federal financial aid programs. I believe we have to keep both these taxpayers in mind when discussing where student financial aid systems are going today. I believe that, working within the present framework of student aid, we can increase the efficiency, reduce the complexities, reduce costs, and still have more money available for needy students both now and in the future. What we need to do is refocus the programs, consider how we can better control costs over the long-term, and still generate decent aid programs for students.

While the other papers presented today are based on extensive data analysis, most of what I have to offer is based upon my 21 years as Director of the Office of Student Financial Aids at the University of Wisconsin-Madison. To a degree it draws on the work of my colleagues who are presenting papers today. I hope that our team will be able to continue to work together combining the experience of a practicing aid officer with facts drawn from careful research. Following are my views of how we can improve the system over the long-term.

Student Loans

First I wish to review the largest aid program, the student loan system. I urge that we change the emphasis from the Guaranteed Student Loan Program to the National Direct Student Loan Program. I would argue that in the long run the National Direct Student Loan (NDSL) Program is a more cost-effective program for the taxpayers. Thus, it should be made the centerpiece of future financial aid programs. In addition to being good value to the taxpayer, it directs dollars to students who demonstrate financial need under stringent standards.

The principal advantage to the NDSL Program is that these dollars, once appropriated, are continually recycled, spent over and over again to help students. At the University of Wisconsin-Madison, for example, we have turned the dollars almost three times now. The dollars that were appropriated in 1958 are still being spent in 1985. In addition, through the interest earned, this program increases the amounts available for relending. And because the program is administered by the institutions, it puts the responsibility for good management at the institution. The federal government does not bail out a school that does a poor job. The government pays no interest subsidy to the lenders (i.e., the schools), nor does it have to pay large administrative costs or guarantee that it will cover defaults.

We did a cost study to compare the NDSL Program to the Guaranteed Student Loan (GSL) Program. We looked at the cost of a $2,500 Guaranteed Student Loan taken out by a freshman in 1980.

While the student was in school, the cost to the government was $1,694.75. After the student graduated in May 1984, we projected that the government would pay another $649.02. Thus the total cost to the government for the $2,500 loan will be approximately $2,342.77. (This is only the government's cost. The student must pay additional interest to the lender which is not covered by the government.) After this loan is paid back, the principal may or may not be available for relending, and certainly the more than $2,300 paid in interest subsidies will not be. Further, should the student default, the government will pay another $2,500 plus the cost of collecting the loan. And finally, administrative costs will have to be paid to guarantee agencies.

It seems to us that the $2,342 in interest costs would be better spent in the NDSL Program where it could have been earning 5 percent interest at least part of the time, and where the entire amount would be available for relending by the school again and again in the future. And probably, if the student defaulted, the government would not have to absorb this additional cost.

Because of the benefit to the taxpayer, I suggest the following changes in the GSL and NDSL Programs to make the NDSL Program the leading source of long-term aid in future planning:

1. Increase the appropriation for NDSL. In addition, change the law to eliminate the provisions stating that schools that annually collect more than they disbursed in 1980-81 may not receive any new federal capital contribution. I do not believe that schools that do a good job of

collecting should be penalized, and we want to see this program expanded at all schools.

2. Keep the present needs test under Uniform Methodology so that NDSL loans go to the neediest students.
3. Increase the institutional match from 10 percent to 20 percent. This will help insure that (a) the fund continues to grow, and (b) schools will have a larger stake in the program and be encouraged to do a better job in administering the program, particularly in terms of billing and collection procedures.
4. Increase the interest rate to borrowers after they are out of school to 6 percent. This will increase money available for relending and will also make the student share more of the cost of his or her education, possibly encouraging the student to pay the loan back sooner.
5. Eliminate maximums, except for the cumulative maximum which I would suggest increasing to $12,500. This would be done so that a school may better package loans with other aid. In many cases it will mean that students will remain on just one loan program and not be forced to borrow from both the NDSL and GSL Programs. Keeping borrowers on only one loan program during their undergraduate careers should also help prevent delinquency and defaults.
6. Similar to the Job Locator and Development Program (JLD), each school should be allowed to set up a special fund to be used only for money management and loan repayment

planning. Each school would use this fund to intensify its loan counseling--assisting students in determining how much they should borrow and providing them full information about their repayment burden. By reducing the problems on the "front end" of borrowing, we can do much to reduce the defaults and delinquencies for both the NDSL and GSL Programs and thus reduce their associated cost to both the schools and the taxpayers.

7. I urge phasing out all Health Profession and Nursing Student Loan Programs. All of those repayments, and any present Health Professions and Nursing Loan capital held by the school, should be placed into the NDSL Program (or a similar program if the school does not now participate in NDSL). Costs to the federal government in administering these programs can be eliminated and schools will be able to more effectively distribute the money available to needy students. The schools can determine how they wish to allocate funds to their students in the schools of nursing, medicine, pharmacy, and so on. With this single program students will borrow only from one loan program and not have loans from possibly three or four different programs, again reducing delinquencies and defaults caused by students borrowing from several different loan programs.

8. A loan consolidation program similar to the former "options" program under Sallie Mae should be returned.

9. Schools under NDSL and other lenders under GSL should be allowed to extend the period of repayment from 10 years to 15 years, if the total combined amount the student had borrowed exceeds $10,000 and if the borrower's financial situation warrants the extension.

10. Finally, all students loans should be reported to credit bureaus, so that future consumer loans or other credit would not be extended if they might drive the borrower into default or bankruptcy.

In addition to these changes in the NDSL Program, I suggest the following for the Guaranteed Student Loan Program (with the savings generated to be put into the NDSL Program and the College Work-Study Program over the years):

1. Apply the present needs test system to all applicants, including those whose income is below $30,000. In addition, use the Uniform Methodology for incomes above $65,000.

2. Raise the interest rate the borrower pays after leaving school to 10 percent. (With a less stringent needs test I feel a higher interest rate is justified.)

3. Reduce the special allowance to lenders from the present 3.5 percent to 3.0 percent.

4. Require that checks be sent directly to the schools from the lenders. In addition, tuition and fees, and room and board if appropriate, should be paid before or at the same time as the disbursement of the GSL check.

5. Require a multiple disbursement for GSL checks that are given to a student to cover more than one academic period (i.e., one semester or one quarter).
6. Reinstate the $10 per Guaranteed Student Loan administrative allowance to be paid to the schools. This is similar to the allowance given to the guarantee agencies and the interest payments to lenders and would be similar to the present $5.00 per application allowance now given for the Pell Grant Program.
7. Eliminate the origination fee and if necessary add an additional amount to the repayment interest rate. This way the students will have the money up front when they need it and can then repay it during the repayment period so that the government does not have any additional cost.
8. Place deadlines on the date a student may apply for a Guaranteed Student Loan, for instance, 45 days prior to the end of an academic period. Students should not be able to apply on May 1st for a period beginning the previous August.

Providing for continuing expansion of the NDSL Program and more flexibility in school administration should reduce the burden on the Guaranteed Student Loan Program and continue to reduce the costs to taxpayers, while still leaving adequate loan funds for needy students.

Work Study

My second focus is on the College Work-Study Program (CWSP). I would gradually increase its appropriation each year by the savings generated from the reductions in cost of the Guaranteed Student Loan Program and also from reductions in cost of the Pell Grant Program, which I will discuss later.

As with the National Direct Student Loan Program, I feel the College Work-Study Program is a beneficial one for taxpayers for a number of reasons. First, the money helps the student pay his or her bills. Second, it helps the schools and other nonprofit agencies provide services that otherwise might not be available. Thus each tax dollar is spent twice. Third, students who work do better in school, as seems to be shown in other papers presented today. Fourth, as has been pointed out in the Newman Report, there is a long-term benefit to society and thus to taxpayers by the opportunities for work. The students also gain by having job experience which may add to their ability to obtain better jobs after they leave school, whether or not they graduate. And finally, by having more job money available, there will be less need for grant money that can be spent only once.

I have the following suggestions for improving the efficiency of the College Work-Study Program:

1. Keep the program under Uniform Methodology so the money goes to the neediest students.
2. Require schools to contribute 25 percent instead of the present 20 percent. This increases investment in the program and again provides an incentive to the schools to manage the program efficiently.

Grants

The final type of student financial aid is the grant programs. I would restructure the Pell Grant Program so that it is more campus oriented in the following manner. First, dismantle the entire central Pell organization, saving the taxpayers a possible $30,000,000 a year in federal expenditures. Eliminate the central contractors and any need for a Pell Grant Section in the United States Department of Education. Much of the work in the Pell Program is duplicated at the institutions, so by eliminating the centralized system, we could also reduce much work at the institutional level. In any event, local control will save untold time and energy on the part of students, parents, and counselors and vastly improve the delivery of money to students.

While I would dismantle the central organization, I would keep the present Pell need determination system--i.e., index related to cost to determine actual grant--with the exception that the schools would be allowed to make changes, as long as they are appropriate in an individual student's situation and can be verified. To improve the delivery system for students, institutions must be given some latitude. All institutions are audited annually, so compliance can be regularly reviewed.

In addition to the decentralization of the program, I suggest a major change in the distribution of Pell funds. I urge that each school be given an allocation based on the amount of Pell funds they have received over the previous five years. This would become a fixed figure and adjustments would be made each year only to reflect changes in inflation and enrollment changes at the

institution. Congress would know exactly what kind of money is necessary for the program and would not have to worry about supplemental appropriations each year, as has been the case. In addition, schools would be forced to make sure the appropriate people receive Pell Grants, since they would have a fixed amount available. Rules will still be in place, and compliance will be maintained through annual audits and Office of Education program reviews.

I would leave the Educational Opportunity Grant Program, known as SEOG, as is except that a more stringent eligibility requirement should be reinstated. I suggest that to be eligible for the Educational Opportunity Grant a student must have need that exceeds one-half of the costs of attendance. The schools need to have this grant program and its flexibility so that they can meet the needs of students from low income backgrounds and tailor aid packages to fit individual situations. In addition, I urge that there be a matching requirement of 20 or 25 percent from the schools. Matching will have two effects: first, it will increase the amount of funds available; and second, it will involve the school in assuming more interest in proper management of the fund.

Other Considerations

I would like to touch on several other matters suggested by other papers presented today.

First, I suggest that appropriations for each of the programs be set up so that an amount equal to 1 percent of the appropriation is set aside for research on student financial aid. This research

would allow us to make changes based on fact rather than opinion or guesswork. I suggest the research be done by independent centers under contract with the appropriate federal agencies, because we need to see what is happening overall, not just in the federal aid programs. We need to know the impact of state aid and private resources.

In addition, again following the JLD model, I urge that a school be allowed to use a certain amount of its own campus-based program funds to develop its own research projects. Many schools have a gold mine of information which could be useful to research centers and the federal government, but they simply do not have the funds for research. Permitting a specific allocation for such research will provide an incentive for schools to do a better job of administering their own programs.

Second, after long thought and much study, I suggest retaining the present self-support rules, except that I would require two prior years of self-support instead of the present one prior year, as well as the year in which the student receives aid. Use of age as a criterion creates too many problems and, as has been shown by other papers, costs the taxpayers too much money. We need to recognize that at some point a student needs to be on his or her own, but I think the taxpayers are better served by having the student be self-supporting for two full calendar years rather than the one year that is now required. I do not think there is an easy answer to the question of self-support. I offer this proposal as what seems to be the most workable compromise for all sectors of

education: public, private, community, and vocational technical colleges.

Third, in regard to part-time students, those attending less than half-time, I make the following recommendations:

1. Funds going to part-time students be limited to tuition and fees, books, and a transportation allowance.
2. Schools be allowed to use up to 10 percent of their work-study and/or EOG funds if they wish, provided that the institutions match these funds on a dollar for dollar basis.
3. Need analysis for the part-time grants be done on a simple "look up" table based upon the applicant's adjusted gross income (or welfare payments or similar information), instead of the current system which requires filing a national form and going through the regular needs analysis procedures. The result will be a quick system of delivering money into the hands of the people who need only small amounts. This will encourage institutions to set up procedures which will benefit taxpayers in the long run by giving these people more opportunities to improve their earning power.

In summary, I believe that these changes over the long-term will decrease the costs of financial aid programs to the taxpayers, increase the efficiency of delivery of money to students, and continue to provide adequate resources for students to finance their educations.

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